

FLASH REPORT

## LUXOTTICA (BIT: LUX) FY16 Results: Operating Profits Decline, but EPS Beats Expectations

**Figure 1. Luxottica FY16 Key Metrics**

	FY16	FY15	YoY Change
Revenues (€ Mil.)	€9,086	€8,837	2.8%
Gross Margin	65.3%	67.9%	(262) bps
SG&A/Sales	50.5%	52.3%	(185) bps
Operating Margin	14.8%	15.6%	(77) bps
Adjusted EPS (€)	€1.84	€1.78	3.4%

Source: Company reports/Fung Global Retail & Technology

- Italian eyewear manufacturer Luxottica reported FY16 adjusted EPS of €1.84, up 3.4% year over year and ahead of the consensus estimate of €1.80.
- A 1.1% decline in gross profit was partially offset by a 0.8% decline in operating costs. Exceptional costs contributed to a 2.3% decline in operating profit.
- Net sales, which had already been reported, climbed by 2.8% in FY16.

### FY16 Results

Luxottica reported that FY16 operating income fell by 2.3%, to €1,345 million; at constant exchange rates, operating income fell by 0.6%. The company noted the impact of organizational simplification and restructuring costs on profitability. Adjusted for reorganization costs, nonrecurring expenses and nonrecurring income, operating income fell by 0.7%, and rose by 0.8% at constant exchange rates.

Gross profit declined by 1.1%, equating to a contraction of 262 basis points in gross margin. Selling, general and administrative expenses fell by 0.8%.

Net income increased by 5.8% as reported, while adjusted net income rose by 3.3% as reported. Adjusted EPS increased by 3.4%, to €1.84, ahead of the consensus estimate of €1.80.

Revenues of €9,086 million were up 2.8% as reported and up 3.9% at constant exchange rates. 4Q16 revenues were up 6.3% as reported and up 5.2% at constant exchange rates. The company had already reported its sales performance for the fourth quarter and full year, and readers can find our coverage of that trading update at [bit.ly/LuxFY16](http://bit.ly/LuxFY16).

### Operational Highlights

The company highlighted its efforts to “improve the quality of sales” in the past year. These included introducing a “minimum advertised price policy” in the US, “cleaning up” distribution channels in China, harmonizing prices across regions and sharply reducing promotions.

The group’s e-commerce platforms posted a 24% increase in sales for the year.

The company acquired Salmoiraghi & Vigano, an optical retail brand in Italy, toward the end of 2016. In January 2017, Luxottica and French ophthalmic lens manufacturer Essilor announced their intention to merge; Luxottica provided no meaningful update on that merger.



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- Readers can find our report on the Luxottica-Essilor merger at [bit.ly/LuxotticaMerger](http://bit.ly/LuxotticaMerger) and our overview of previous Luxottica M&A activity at [bit.ly/LuxotticaMA](http://bit.ly/LuxotticaMA).

**Outlook**

In FY17, the company expects sales growth in the low- to mid-single-digit range at constant exchange rates. It expects adjusted operating income of 0.8–1.0 times sales, adjusted net income of 1.0 times sales and a net debt/EBITDA ratio of approximately 0.5 times.

For FY17, analysts expect Luxottica to grow sales by 6.4% and EBIT by 9.9%. Consensus is for adjusted EPS to climb 9.4%, to €1.97. Consensus estimates were collated before the latest results were released.



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